

# 2015 NC Tax Law Changes

Finance Staff

# 2015 Session Wrap-Up

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- ▶ **Economic Development**
  - ▶ Business Tax Changes
  - ▶ Incentives
- ▶ **The “Other” Tax Issues**
  - ▶ PIT Changes
  - ▶ Sales Tax Base Expansion
  - ▶ Local Sales Tax Distribution
- ▶ **Miscellaneous Tax Changes**
- ▶ **Tax Compliance/Tax Fraud Prevention**
- ▶ **House Bill 97**
  - ▶ S.L. 2015-241
  - ▶ *Current Operations and Capital Improvements Appropriations Act of 2015*
- ▶ **House Bill 117**
  - ▶ S.L. 2015-259
  - ▶ *N.C. Competes Act*



# UI 20% Surcharge Suspended for 2016

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Senate Bill 15, S.L. 2015-238

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# Economic Development

Tax Law Changes

# Tax Reform and Economic Development

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- ▶ Lower rate
- ▶ Broad base
  - ▶ Horizontal equity
  - ▶ Simplification
- ▶ S.L. 2013-316
  - ▶ Rate reduction and triggers
  - ▶ No less than 40 tax preferences eliminated
- ▶ S.L. 2015-241
  - ▶ Additional changes to tax base
  - ▶ Single Sales Factor apportionment

# Business Tax Base Changes

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## Corporate

- ▶ Placed limitation on interest expense deductions between related members
- ▶ Repealed cap on tax due from banks as a result of expense attribution associated with dividends not taxed
- ▶ Reduced the expense attribution percentage for banks from 20% to 15%

## Franchise

- ▶ Simplified tax base calculation to be more consistent with net worth under GAAP
- ▶ Applied affiliated debt add-back to noncorporate entities



# Other Business Tax Changes

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- ▶ **Single Sales Factor Apportionment**
  - ▶ Phase-in over three years
  - ▶ Informational return concerning market based sourcing due April 15, 2016, based on 2014 taxable year data for corporations with \$10 million in income before apportionment
- ▶ **Repeal bank privilege license tax**
- ▶ **Repealed obsolete & antiquated CIT and franchise tax deductions**



# Business Tax Rate Changes

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## Corporate

- ▶ From 6.9% in 2013 to 4% in 2016
- ▶ 3% **whenever net General Fund tax revenues exceed \$20,975,000,000**
- ▶ Anticipate that target amount will be met in FY 2015-16
- ▶ Rate would be reduced in the subsequent taxable year, 2017

## Franchise

- ▶ No change to base rate of \$1.50 per \$1,000
- ▶ Minimum tax increased from \$35 to \$200, effective for the 2017 taxable year
- ▶ Maximum tax on holding companies increased from \$75k to \$150k, effective for the 2017 taxable year





# Economic Development

Incentives

# How to Incent Businesses?

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- ▶ Simplify tax laws and reduce tax rates
- ▶ Use State appropriations rather than tax expenditures
  - ▶ More focused
  - ▶ More accountability
  - ▶ More transparent
  - ▶ More deliberative



# Tax Credits

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## ▶ Credits Not Extended

- ▶ Research & Development
- ▶ Low-Income Housing
- ▶ Renewable Energy
- ▶ Film

## ▶ Renewable Energy Safe Harbor

- ▶ S.L. 2015-11
- ▶ For projects substantially completed by January 1, 2016

## ▶ Historic Rehabilitation

- ▶ It's Back!
  - ▶ Expired 2014
  - ▶ No credit 2015
  - ▶ New credit 2016
- ▶ Expires January 1, 2020
- ▶ S.L. 2015-264, exception
- ▶ Local Incentives
  - ▶ S.L. 2015-277, Senate Bill 472
  - ▶ Emphasizes that local governments may appropriate money for historic rehabilitation



# JDIG

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- ▶ Extended Program through January 1, 2019
- ▶ Increased Commitment Availability from \$15M to \$20M
- ▶ Created a Component for Recruitment of Megsites or High-Yield Projects
  - ▶ Investment Threshold of \$500M
  - ▶ Job Creation of 1,750
  - ▶ Increases annual commitment availability from \$20M to \$35M
  - ▶ IF business meets the job creation and investment commitment and all performance metrics for three consecutive years ...
    - ▶ Award calculation increases to 100% of withholdings
    - ▶ Length of award increases from 12 years to 20 years
    - ▶ Utility Account diversion is eliminated



# JDIG and Allocation of Grant Funds

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## Tier Designation

- ▶ Award Calculation
  - ▶ 80% of PIT withholdings if project is in Tier 1
  - ▶ 75% for all other areas
- ▶ Utility Account Diversion
  - ▶ No diversion for Tier 1
  - ▶ 10% diversion for Tier 2 (was 15%)
  - ▶ 25% diversion for Tier 3
- ▶ Job Creation
  - ▶ 50 for Tier 3 (was 20)

## Other Program Changes

- ▶ Creates 2 equal semiannual installments of \$10M
- ▶ Additional finding that the local has appropriately participated in recruitment efforts and incentives
- ▶ Annual reporting of tier-itemized listing of unaccepted offers and their aggregate value



# One NC

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- ▶ Discretionary fund to provide dollars to local governments for recruitment, expansion, or retention of new or existing businesses
- ▶ Modifications to the Local Match Requirements utilizing a Tiered Approach

<b>Tier 1</b>	<ul style="list-style-type: none"><li>• \$3 State</li><li>• \$1 Local</li></ul>
<b>Tier 2</b>	<ul style="list-style-type: none"><li>• \$2 State</li><li>• \$1 Local</li></ul>
<b>Tier 3</b>	<ul style="list-style-type: none"><li>• \$1 State</li><li>• \$1 Local</li></ul>



# PIT Changes

Rate

Standard Deductions

Itemized Deductions

# PIT Rate Changes

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- ▶ **2013**
  - ▶ Graduated rates
  - ▶ Range from 6% to 7.75%
- ▶ **2014**
  - ▶ Flat rate
  - ▶ 5.8%
- ▶ **2015 & 2016**
  - ▶ 5.75%
- ▶ **2017**
  - ▶ 5.499%





# PIT Standard Deduction Changes

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## ▶ 2013

- ▶ Personal Exemptions and Standard Deductions

## ▶ 2014

- ▶ No personal exemptions
- ▶ Larger standard deductions
  - ▶ Married filing jointly \$15,000
  - ▶ Head of Household \$12,000
  - ▶ Single \$ 7,500
  - ▶ Married filing separately \$ 7,500

## ▶ 2016

- ▶ 3% increase in standard deduction amounts
- ▶ Married filing jointly moves from \$15,000 to \$15,500
- ▶ Others move accordingly



# PIT Itemized Deduction Changes

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## ▶ 2013

- ▶ Substantially the same as federal itemized deductions

## ▶ 2014

- ▶ Eliminated all itemized deductions but three
- ▶ Three remaining itemized deductions:
  - ▶ Charitable contributions
  - ▶ Home mortgage interest + Property taxes paid on real estate, capped at \$20,000

## ▶ 2015

- ▶ Additional itemized deduction for Medical and Dental Expenses
  - ▶ Unlimited; no cap
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# Sales Tax Base Expansion

Installation

Repairs and Maintenance

# Sales Tax Base Expansion

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## ▶ 2013

- ▶ Entertainment activities
  - ▶ Including admission charges to the State Fair, effective 2015
- ▶ Meal plans at universities
- ▶ Service contracts

## ▶ 2015, effective March 1, 2016

- ▶ Remove the sales tax exemption for installation charges
- ▶ Expand the sales tax base to include gross receipts from installation, repair, and maintenance services of tangible personal property



# Miscellaneous Tax Changes

Sales Tax Changes

Motor Vehicle Tax Rate Changes

Property Tax Exemption for Builder's Inventory

# Sales Tax Exemption for Datacenters

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## Current Exemption

- ▶ Investment threshold of \$250M
- ▶ Location requirement of tier 1 or tier 2 county
- ▶ No wage and health insurance standard
- ▶ Use for software publishing or Internet activity

## New Exemption

- ▶ Investment threshold of \$75M
- ▶ No location requirement
- ▶ Meet wage and health insurance standard
- ▶ No specific use requirement



# Other Economic Development Tax Changes

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## Aviation Fuel

- ▶ Sales tax refund expires at end of 2015 (hub)
- ▶ FAA requirement
- ▶ HondaJet
- ▶ Exempt aviation fuel for interstate air business
- ▶ Combined general rate for fuel; proceeds for aviation
- ▶ General rate/new cap for aircraft
- ▶ New sales tax exemption

## Motorsports

- ▶ Conflict be/ Revenue Ruling and statutory language
- ▶ Technical concerns
- ▶ Expiring credits
- ▶ Sales tax exemption
- ▶ Sales tax clarification
- ▶ Sales tax refund extension
- ▶ Sunset on all provisions



# Motor Fuel Excise Tax Rate

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## Senate Bill 20, S.L. 2015-2

Date	Tax Rate
April 1, 2015	36 cpg
January 1, 2016	35 cpg
July 1, 2016	34 cpg
January 1, 2017	34 cpg * percentage
January 1, 2018	Rate for preceding year * percentage

What is the percentage?

100% +/- the sum of the following:

- Percentage change in population \* 75%
- Percentage change in CPI for All Urban Consumers (energy costs) \* 25%





# Property Tax Exclusion for Builder's Inventory

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## Summary of Exclusion Provisions

	Residential Property	Commercial Property
Applies to Increase in Value Attributed to ...	<ul style="list-style-type: none"><li>• Subdivision</li><li>• Non-structural improvements</li><li>• New single-family homes or duplexes</li></ul>	<ul style="list-style-type: none"><li>• Subdivision</li><li>• Non-structural improvements</li></ul>
Maximum Duration	Three years from first listing	Five years from first listing
Disqualifications	<ul style="list-style-type: none"><li>• Sale</li><li>• Removal from market</li><li>• Lease</li><li>• Commercial use (eg, as a model home)</li></ul>	<ul style="list-style-type: none"><li>• Sale</li><li>• Removal from market</li><li>• Issuance of building permit</li></ul>

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Chris McLaughlin, Property Tax Bulletin, No. 169, September 2015, SOG

House Bill 168, S.L. 2015-223

# Tax Compliance and Tax Fraud Prevention

House Bill 117

S.L. 2015-259

# Department of Revenue Initiative

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- ▶ Reduce and prevent occurrence of refund fraud
  - ▶ **Require reports re: compensation be submitted by January 31<sup>st</sup>**
    - ▶ Employers and payers of independent contractors
    - ▶ Pension plan administrators
    - ▶ Lottery Commission
- ▶ Ensure tax compliance among business professionals and business entities
  - ▶ **Require reports re: name, license number, tax ID number, business address, etc.**
    - ▶ State licensing boards
    - ▶ Alcohol vendors
- ▶ Enable bankrupt taxpayers to more quickly pay tax debts
  - ▶ **Allow Secretary to reduce or waive penalties and interest**

